株式会社ニラク·ジー·シー·ホールディングス

NIRAKU GC HOLDINGS, INC.*

(Incorporated in Japan with limited liability)

(Stock Code: 1245)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

RESULTS HIGHLIGHTS

- Gross pay-ins were ¥42,082 million (or HK$3,083 million#), recording a decrease of 40.5% as compared with the same period last year;
- Revenue was ¥8,302 million (or HK$608 million#), recording a decrease of 42.3% as compared with the same period last year;
- Loss before income tax was ¥1,738 million (or HK$127 million#), recording a decrease of ¥2,631 million (or HK$193 million) as compared with the same period last year;
- Loss for the period attributable to shareholders of the Company was ¥1,648 million (or HK$121 million#), recording a decrease of ¥2,144 million (or HK$157 million) as compared with the same period last year;
- Basic loss per share of the Company was ¥1.38 (or HK$0.10#) (2019: basic earnings per share was ¥0.41);
- The Board has resolved not to declare an interim dividend for the six months ended 30 September 2020 (Six months ended 30 September 2019: ¥0.10 per share); and
- The Group operated 53 halls as at 30 September 2020.

Translated into Hong Kong dollar at the rate of ¥13.65 to HK$1.00, the exchange rate prevailing on 30 September 2020 (i.e. the last business day in September 2020).

* *For identification purpose only*

The board (the "Board") of directors (the "Directors") of NIRAKU GC HOLDINGS, INC.* (the "Company" or "NIRAKU") would like to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2020 together with the comparative figures for the six months ended 30 September 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 September	
	Note	**2020**	2019
		¥ million	*¥ million*
		(Unaudited)	(Unaudited)
Revenue	*4*	**8,302**	14,391
Other income	*5*	**392**	441
Other gains/(losses), net	*5*	**137**	(52)
Hall operating expenses	*6*	**(7,950)**	(10,850)
Administrative and other operating expenses	*6*	**(1,679)**	(2,348)
Impairment loss on loan to an associate		**(271)**	–
Operating (loss)/profit		**(1,069)**	1,582
Finance income		**47**	31
Finance costs		**(716)**	(720)
Finance costs, net	*7*	**(669)**	(689)
(Loss)/profit before income tax		**(1,738)**	893
Income tax expense	*8*	**(14)**	(516)
(Loss)/profit for the period		**(1,752)**	377
(Loss)/profit for the period attributable to:			
Owners of the Company		**(1,648)**	496
Non-controlling interest		**(104)**	(119)
		(1,752)	377

	Note	Six months ended 30 September **2020** ***¥ million*** **(Unaudited)**	2019 *¥ million* (Unaudited)
Other comprehensive (loss)/income			
Items that have been reclassified or may be subsequently reclassified to profit or loss			
Currency translation differences		**(26)**	(20)
Items that will not be reclassified to profit or loss			
Change in value of financial assets through other comprehensive income		**24**	(124)
Total comprehensive (loss)/income for the period		**(1,754)**	233
Total comprehensive (loss)/income attributable to:			
Owners of the Company		**(1,650)**	351
Non-controlling interest		**(104)**	(118)
		(1,754)	233
(Loss)/earnings per share for (loss)/profit attributable to owners of the Company			
— Basic and diluted (expressed in ¥ per share)	*9*	**(1.38)**	0.41

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 September 2020 ¥ million (Unaudited)	31 March 2020 ¥ million (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	*11*	**21,853**	22,257
Right-of-use assets	*12*	**31,902**	32,072
Investment properties	*11*	**620**	630
Intangible assets	*11*	**1,562**	1,601
Prepayments, deposits and other receivables		**4,826**	5,119
Interest in an associate		**–**	–
Financial assets at fair value through other comprehensive income		**600**	565
Deferred income tax assets		**2,807**	2,822
		64,170	65,066
Current assets			
Inventories		**114**	40
Trade receivables	*13*	**92**	48
Prepayments, deposits and other receivables		**1,208**	1,026
Financial assets at fair value through profit or loss		**104**	100
Bank deposits with maturity over 3 months		**75**	750
Cash and cash equivalents		**15,865**	14,128
		17,458	16,092
Assets classified as held for sales		**10**	–
		17,468	16,092
Total assets		**81,638**	81,158

	Note	**30 September 2020 *¥ million* (Unaudited)**	31 March 2020 *¥ million* (Audited)
EQUITY			
Equity attributable to shareholders of the Company			
Share capital		**3,000**	3,000
Reserves		**21,570**	23,220
		24,570	26,220
Non-controlling interest		**(525)**	(421)
Total equity		**24,045**	25,799
LIABILITIES			
Non-current liabilities			
Borrowings	*15*	**8,660**	9,853
Lease liabilities	*12*	**31,726**	32,035
Provisions and other payables		**2,260**	2,270
Derivative financial instruments		**22**	22
		42,668	44,180
Current liabilities			
Trade payables	*14*	**106**	114
Borrowings	*15*	**8,001**	3,233
Lease liabilities	*12*	**2,910**	2,542
Accruals, provisions and other payables		**3,297**	4,404
Derivative financial instruments		**4**	4
Current income tax liabilities		**607**	882
		14,925	11,179
Total liabilities		**57,593**	55,359
Total equity and liabilities		**81,638**	81,158

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

株式会社ニラク•ジー•シー•ホールディングス NIRAKU GC HOLDINGS, INC.* was incorporated in Japan under the Japan Companies Act with limited liability on 10 January 2013. The address of its registered office is 1-39 Hohaccho 1-chome, Koriyama-shi, Fukushima, Japan.

The Company is an investment holding company. The Company and its subsidiaries (together, the "Group") are principally engaged in pachinko and pachislot hall operations, hotel and restaurant operations in Japan; amusement arcade operations in Southeast Asian countries; and restaurant operations in China. The Company listed on the Main Board of The Stock Exchange of Hong Kong Limited.

This condensed consolidated interim financial information is presented in millions of Japanese Yen ("¥"), unless otherwise stated.

This condensed consolidated interim financial information was approved for issue on 20 November 2020.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 September 2020 has been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB"). The condensed consolidated interim financial information does not include all the notes of the type normally included in an annual financial report. Accordingly, this condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 March 2020, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

3 ACCOUNTING POLICIES

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 March 2020, as described in the annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) Amendments to standards adopted by the Group

The following amendments to standards have been issued and are effective for annual periods beginning on 1 April 2020:

Amendments to IFRS 3	Definition of a Business
Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IAS 39, IFRS 7 and IFRS 9	Hedging Accounting
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting

The adoption of the amendments to standards did not have any material impact on the Group's accounting policies.

(b) **New and amended standards, improvements and interpretations to existing standards (collectively, the "Amendments") not yet adopted by the Group**

		Effective for accounting periods beginning on or after
Amendments to IFRS 16	COVID-19 Related Rent Concession	1 June 2020
IFRS 17	Insurance Contracts	1 January 2021
Amendments to IFRS 3	Update reference to conceptual framework	1 January 2022
Amendments to IAS 16	Proceeds before intended use	1 January 2022
Amendments to IAS37	Onerous contracts — cost of fulfilling a contract	1 January 2022
Annual improvements to IFRSs 2018-2020	Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	1 January 2022
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group is currently assessing the impact of the adoption of these Amendments and is of the view that they would not have a material impact on the Group's results of operations and financial position.

4 REVENUE AND SEGMENT INFORMATION

(a) Revenue

	Six months ended 30 September	
	2020	2019
	¥ million	*¥ million*
	(Unaudited)	(Unaudited)
Revenue		
Gross pay-ins	**42,082**	70,770
Less: gross pay-outs	**(34,598)**	(57,993)
Revenue from pachinko and pachislot hall business	**7,484**	12,777
Revenue from amusement arcades	**526**	901
Vending machine income	**150**	245
Revenue from hotel operation	**20**	82
Revenue from restaurant operations	**122**	386
	8,302	14,391

(b) Segment information

Management has determined the operating segments based on the reports reviewed by the chief operating decision maker that are used for making strategic decisions. The chief operating decision-maker is identified as the executive directors of the Company. The executive directors consider the business from a service perspective and assess the performance of the operating segments based on a measure of (loss)/profit before income tax before unallocated corporate expenses for the purposes of allocating resources and assessing performance. These reports are prepared on the same basis as this condensed consolidated interim financial information.

During the year ended 31 March 2020, management had changed its internal performance review to align more closely with the Group's strategic decision and development of which the previous operating segment of "others" was separated into two operating segments, namely "other operations", representing hotel and restaurant operations in Japan and "restaurant operations" in China. The comparative amounts of the segment information for the six months ended 30 September 2019 has been reclassified to reflect such change.

Management has identified four reportable segments based on the types of services, namely (i) pachinko and pachislot hall operations in Japan, (ii) amusement arcade operations in Vietnam and Cambodia (collectively "Southeast Asia"), (iii) restaurant operations in China and (iv) other operations, representing hotel and restaurant operations in Japan.

Segment assets consist primarily of property, plant and equipment, investment properties, right-of-use assets, intangible assets, inventories, trade receivables, prepayments, deposits and other receivables, bank deposits and cash and cash equivalents. They exclude deferred income tax assets and assets used for corporate functions including financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and interest in an associate.

Capital expenditure comprises additions to property, plant and equipment, right-of-use assets, investment properties and intangible assets. Unallocated corporate expenses and income tax expenses are not included in segment results.

The segment information provided to the executive directors for the six months ended 30 September 2020 and 2019 are as follows:

	Six months ended 30 September 2020				
	Pachinko and pachislot hall operations in Japan *¥ million*	**Amusement arcade operations in Southeast Asia** *¥ million*	**Restaurant operations in China** *¥ million*	**Other operations in Japan** *¥ million*	**Total** *¥ million*
Segment revenue from external customers					
Over time	**7,634**	**526**	**–**	**142**	**8,302**
Segment results	**(1,161)**	**(87)**	**(65)**	**(113)**	**(1,426)**
Corporate expenses					**(312)**
Share of results of an associate					**–**
Loss before income tax					**(1,738)**
Income tax expense					**(14)**
Loss for the period					**(1,752)**
Other segment items					
Depreciation and amortisation expenses	**(2,151)**	**(225)**	**(10)**	**(10)**	**(2,396)**
Impairment loss on right-of-use assets	**(8)**	**–**	**–**	**–**	**(8)**
Impairment loss on property, plant and equipment	**(172)**	**(17)**	**–**	**–**	**(189)**
Finance income	**46**	**1**	**–**	**–**	**47**
Finance costs	**(668)**	**(48)**	**–**	**–**	**(716)**

	Six months ended 30 September 2019				
	Pachinko and pachislot hall operations in Japan *¥ million*	Amusement arcade operations in Southeast Asia *¥ million*	Restaurant operations in China *¥ million* (Restated)	Other operations in Japan *¥ million* (Restated)	Total *¥ million*
Segment revenue from external customers					
Over time	13,022	901	162	306	14,391
Segment results	1,350	77	(212)	(23)	1,192
Corporate expenses					(299)
Share of results of an associate					–
Profit before income tax					893
Income tax expense					(516)
Profit for the period					377
Other segment items					
Depreciation and amortisation expenses	(2,448)	(207)	(7)	(36)	(2,698)
Finance income	31	–	–	–	31
Finance costs	(674)	(46)	–	–	(720)

The segment assets as at 30 September 2020 and 31 March 2020 are as follows:

	Pachinko and pachislot hall operations in Japan *¥ million*	**Amusement arcade operations in Southeast Asia** *¥ million*	**Restaurant operations in China** *¥ million*	**Other operations in Japan** *¥ million*	**Total** *¥ million*
As at 30 September 2020					
Segment assets	**69,199**	**2,122**	**760**	**410**	**72,491**
Unallocated assets					**6,340**
Deferred income tax assets					**2,807**
Total assets					**81,638**
Addition to non-current assets other than financial instruments and deferred tax assets	**2,099**	**160**	**–**	**–**	**2,259**

	Pachinko and pachislot hall operations in Japan *¥ million*	Amusement arcade operations in Southeast Asia *¥ million*	Restaurant operations in China *¥ million* (Restated)	Other operations in Japan *¥ million* (Restated)	Total *¥ million*
As at 31 March 2020					
Segment assets	68,234	2,130	970	696	72,030
Unallocated assets					6,306
Deferred income tax assets					2,822
Total assets					81,158
Addition to non-current assets other than financial instruments and deferred tax assets	1,221	580	469	229	2,499

The total non-current assets other than financial instruments and deferred tax assets, analysed by location of the assets, are as follows:

	As at 30 September 2020 ***¥ million*** **(Unaudited)**	As at 31 March 2020 *¥ million* (Audited)
Japan	**54,703**	59,314
Southeast Asia	**1,202**	1,536
China	**527**	829
	56,432	61,679

No single external customer contributed more than 10% revenue to the Group's revenue for the six months ended 30 September 2020 and 2019.

5 OTHER INCOME AND OTHER GAINS/(LOSSES), NET

	Six months ended 30 September	
	2020	2019
	¥ million	*¥ million*
	(Unaudited)	(Unaudited)
Other income		
Rental income	**77**	230
Income from expired IC and membership cards	**8**	15
Dividend income	**14**	28
Compensation and subsidies *(Note)*	**189**	1
Income from scrap sales of used pachinko and pachislot machines	**44**	153
Others	**60**	14
	392	441
Other gains/(losses), net		
Gain on release of lease liabilities	**132**	–
Gain on fair value of financial assets through profit or loss	**4**	2
Loss on fair value of derivative financial instruments	**–**	(1)
Loss on disposal of property, plant and equipment	**(16)**	(54)
Others	**17**	1
	137	(52)

Note:

During the six months ended 30 September 2020, compensation and subsidies were mainly received from the Government of Japan as a financial aid to Japanese corporations during the COVID-19 pandemic.

6 OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after charging the following:

	Six months ended 30 September	
	2020	2019
	¥ million	*¥ million*
	(Unaudited)	(Unaudited)
Employee benefits expenses		
— Hall operations	**2,456**	2,785
— Administrative and others	**570**	896
Short-term operating lease rental expense in respect of land and buildings	**76**	150
Depreciation of property, plant and equipment	**997**	1,325
Depreciation of right-of-use assets	**1,363**	1,329
Depreciation of investment properties	**10**	10
Amortisation of intangible assets	**26**	34
Impairment loss on property, plant and equipment	**189**	–
Impairment loss on right-of-use assets	**8**	–
Pachinko and pachislot machines expenses *(Note)*	**1,533**	3,222

Note:

Pachinko and pachislot machines are expensed off in the interim condensed consolidated statement of comprehensive income upon installation. The expected useful lives of these machines are less than one year.

7 FINANCE COSTS, NET

	Six months ended 30 September 2020	2019
	¥ million	*¥ million*
	(Unaudited)	(Unaudited)
Finance income		
Bank interest income	**1**	3
Interest income from lease receivables	**19**	–
Other interest income	**27**	28
	47	31
Finance costs		
Bank borrowings	**(108)**	(105)
Lease liabilities	**(498)**	(566)
Provision for unwinding discount	**(110)**	(49)
	(716)	(720)
Finance costs, net	**(669)**	(689)

8 INCOME TAX EXPENSE

	Six months ended 30 September 2020	2019
	¥ million	*¥ million*
	(Unaudited)	(Unaudited)
Current tax		
— Japan	**10**	551
— Other Asian countries	**(3)**	39
	7	590
Deferred income tax	**7**	(74)
	14	516

Taxation has been provided at the appropriate rates prevailing in the countries in which the Group operates. The Group is subject to national corporate income tax, inhabitant tax and enterprise tax in Japan, which, in aggregate, resulted in effective statutory income tax rates of approximately 29.9% for the six months ended 30 September 2020 (For the six months ended 30 September 2019: 29.9%).

Taxation on other Asian countries profits has been calculated on the estimated (loss)/profit for the year at the rate of taxation prevailing in the countries in which the Group operates. These rates range from 17.0% to 20.0% for the six months ended 30 September 2020 (For the six months ended 30 September 2019: same).

9 (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 September 2020 and 2019.

	Six months ended 30 September	
	2020	2019
	¥ million	*¥ million*
	(Unaudited)	(Unaudited)
(Loss)/profit attributable to shareholders of the Company *(¥ million)*	**(1,648)**	496
Weighted average number of shares for the purpose of calculating basic (loss)/earnings per share *(thousands)*	**1,195,850**	1,195,850
Basic and diluted (loss)/earnings per share *(¥)*	**(1.38)**	0.41

Diluted (loss)/earnings per share is the same as basic (loss)/earnings per share as there was no potential dilutive shares during the six months ended 30 September 2020 and 2019.

10 DIVIDENDS

For the six months ended 30 September 2019, the Company paid dividend of ¥84 million (¥0.07 per ordinary share) to their shareholders in respect of the year ended 31 March 2019. No dividend was paid during the six months ended 30 September 2020.

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2020 (For the six months ended 30 September 2019: ¥0.10 per ordinary share).

11 PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES AND INTANGIBLE ASSETS

During the six months ended 30 September 2020, the Group incurred expenditures of approximately ¥812 million and ¥25 million for property, plant and equipment and intangible assets, respectively (For the six months ended 30 September 2019: ¥650 million and ¥50 million, respectively.)

During the six months ended 30 September 2020, the net book amounts of disposal of property, plant and equipment amounted to approximately ¥32 million (For the six months ended 30 September 2019: ¥73 million for properties, plant and equipment). During the six months ended 30 September 2020, there was no disposal of intangible asset and investment property (For the six months ended 30 September 2019: Nil).

As at 30 September 2020, property, plant and equipment and investment properties of ¥11,168 million and ¥620 million, respectively (31 March 2020: ¥10,475 million and ¥630 million), were pledged to secure bank borrowings.

The Group carried out reviews of the recoverable amounts whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The reviews were performed at cash-generating unit ("CGU") level, which is determined as each individual pachinko and pachislot hall, a pachinko and pachislot hall with hotel business, restaurant and amusement arcade.

For the six months ended 30 September 2020, in view that some of the CGUs have performed below management's expectation or were loss-making during resumption of operation after the mandatory shutdown announced by local government, the directors have reviewed the recoverability of the relevant carrying amounts of these CGUs.

The recoverable amount of a CGU is determined based on the fair value less cost of disposal or value-in-use of calculation, whichever is higher. These calculations use pre-tax cash flow projections over the CGUs useful lives which based on financial budgets approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using the estimated growth rates stated below. The key assumptions used in the value-in-use calculations for the six months ended 30 September 2020 and 2019 are as follow:

	Six months ended 30 September			
	2020		2019	
	Revenue growth rate	**Discount rate**	Revenue growth rate	Discount rate
Pachinko and pachislot hall operations	**0%**	**9%**	0%	8.5%
Amusement arcade operations	**0%**	**19.7%**	N/A	N/A

The discount rates applied by the Group are rates that reflect current market assessment of the time value of money and the risk specific to the CGUs. Revenue growth rate is based on past practices and expectations on market and operational development.

The fair value less cost of disposal calculation is based on the valuation carried out by independent professionally qualified valuers who hold recognised relevant professional qualifications and have recent experience in the locations and segments of the properties valued. The valuations were determined using the market approach, which largely used observable and unobservable inputs, including unit price per square meter of sales comparable for land. The fair values of all CGUs subject to fair value less cost of disposal calculation are within level 3 of the fair value hierarchy.

The Group's finance department includes a team that reviews the valuations performed by the independent valuer for financial reporting purposes. This team reports directly to the executive directors. Discussions of valuation processes and results are held between the valuation team and valuer at least annually.

For the six months ended 30 September 2020, as a result of the impairment review, impairment loss of approximately ¥189 million (For the six months ended 30 September 2019: Nil) has been recognised. No impairment loss for investment properties and intangible assets was incurred by the Group for the six months ended 30 September 2020 (For the six months ended 30 September 2019: Nil).

If the forecast discount rate was increased by 1.5%, with all other variables held constant, the change of result would be insignificant.

12 LEASES

During the six months ended 30 September 2020, the Group entered into a number of lease agreements for the use of equipment, staff quarters and vehicles, and therefore recognised the additions of right-of-use assets of ¥1,013 million.

During the six months ended 30 September 2020, the Group received rent concessions in the form of a discount on fixed monthly rental payments during the period of severe social distancing and travel restriction measures introduced to contain the spread of Coronavirus Disease 2019 ("COVID-19"). The Group has not early adopted the amendment to IFRS 16 "COVID-19-related rent concessions" and has accounted for the rent concessions as lease modifications.

For the six months ended 30 September 2020, as a result of the impairment review, impairment loss of approximately ¥8 million has been recognised on right-of-use assets.

Amounts recognised in the interim condensed consolidated statement of financial position are as follows:

	30 September 2020	31 March 2020
	¥ million	*¥ million*
	(Unaudited)	(Audited)
Right-of-use assets		
Buildings	**30,598**	30,565
Leasehold improvement	**1,198**	1,438
Equipment and tools	**55**	69
Vehicles	**51**	–
	31,902	32,072
Lease liabilities		
Current	**2,910**	2,542
Non-current	**31,726**	32,035
	34,636	34,577

13 TRADE RECEIVABLES

	30 September 2020	31 March 2020
	¥ million	*¥ million*
	(Unaudited)	(Audited)
Trade receivables	**92**	48

Trade receivables represent commission income receivable from vending machines and income receivables from hotel and restaurant operations. The credit terms granted by the Group generally ranged from 0 to 30 days.

The ageing analysis of the trade receivables, based on invoice date, is as follows:

	30 September 2020	31 March 2020
	¥ million	*¥ million*
	(Unaudited)	(Audited)
Less than 30 days	**91**	48
31 days to 90 days	**1**	–
	92	48

14 TRADE PAYABLES

The ageing analysis of the trade payables, based on invoice dates, were as follows:

	30 September 2020	31 March 2020
	¥ million	*¥ million*
	(Unaudited)	(Audited)
Less than 30 days	**12**	114
31–90 days	**91**	–
Over 90 days	**3**	–
	106	114

15 BORROWINGS

	30 September 2020	31 March 2020
	¥ million	*¥ million*
	(Unaudited)	(Audited)
Non-current portion		
Bank loans	**2,838**	3,365
Syndicated loans	**5,822**	6,488
	8,660	9,853
Current portion		
Bank loans	**1,206**	1,427
Syndicated loans	**6,795**	1,806
	8,001	3,233
Total borrowings	**16,661**	13,086

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

Following the outbreak of Coronavirus Disease 2019 ("COVID-19") starting in the beginning of 2020, the global economy has experienced the deepest recession. Under this circumstance, the Group's performance was inevitably affected, not only locally in Japan, but also impacted the Group's investments in Southeast Asia and China. As an aftermath, the revenue of the Group for the six months ended 30 September 2020 suffered from a steep fall by 42.3% from ¥14,391 million for the six months ended 30 September 2019 to ¥8,302 million in current period. The Group's revenue margin was shrunk by 0.3%, and the net margin changed from a profit margin of 2.6% for the six months ended 30 September 2019 to a loss margin of 21.1% in current period, resulting in a net loss attributable to owners of ¥1,648 million for current period as compared to a net profit attributable to owners of ¥496 million for the same period in 2019. The Group had implemented various cost controls to minimise the impact of COVID-19 including control of labor costs, slow-down of pachinko machines replacement, freezing recruitment and advertising activities. These measures led to a 27.0% decrease in cost in 2020 as compared to the same period in 2019. As the development of COVID-19 is unpredictable, the Group remains high alert in response to the volatile market conditions and adjusted its business strategies to maintain a stable sales turnover. Despite the foregoing, the Group maintains a healthy cash flow and financial position and has sufficient cash to meet its business needs.

BUSINESS SEGMENT ANALYSIS

Pachinko business

The COVID-19 pandemic had further dampened the pachinko business which had already been vulnerable. Under the state of emergency declaration, the government of Japan requested citizens to self-isolate and avoid physical social interaction. Following the government directive in April 2020, the Group temporarily suspended the operation of all pachinko halls. Although most of the halls were subsequently re-opened in late May 2020, the customer recovery has yet to rebound to pre-pandemic level as the pandemic deeply affected people's consumption behaviour. This negative impact had resulted in drastic drop in pachinko revenue from ¥12,777 million for the six months ended 30 September 2019 to ¥7,484 million in current period. To strive for a fiscal balance, various cost controls were executed by the management during the interim period. These measures included control labor costs, slow-down the machine replacement exercise, bargain for rental concession and minimise unnecessary spending. Through these measures, hall expenses were dropped by 26.7% as compared to the same period in 2019.

Amusement arcades business

Dream Games has 10 outlets in Vietnam and 2 outlets in Cambodia, providing assorted gaming facilities to kids and their families. The performance of this business segment was seriously affected in the first quarter of this financial year as local governments announced lockdown and social distancing restrictions in late March 2020. Revenue generated from amusement arcades business recorded a 41.6% drop from ¥901 million for the six months ended 30 September 2019 to ¥526 million in current period as a result of the temporary closure of all outlets. Following the loosen of restrictions and resumption of business, Dream Games's performance gradually recovered. Through continue alliance with big and reputable shopping mall operator, Aeon, management is confident to secure a stable business growth.

Restaurant business

The Group's restaurant business comprises 3 franchised Spanish restaurants under the name "LIZZARAN" and 2 franchised cafés under the name "KOMEDA" which are all located in Japan; and an array of Japanese restaurants named "YOKOCHO" in Shenzhen Upper Hills commercial building in China. Food and beverage business continued to be severe as social distancing and lockdown measures had refrained people from dinning in. Though take-away service was provided by LIZZARAN, the number of patrons was low as take-away habit was less popular in Japan. A good sign was that KOMEDA's recovery was on track and rebounded to profit in June 2020.

Since the outbreak of COVID-19 in late December 2019 followed by the lockdown policy in January 2020, YOKOCHO has suspended its operation. Resumption of business will depend on the progress of facility enhancement carried out by the complex, though the Group expects it will be reopened in the coming financial year.

PROSPECT AND FUTURE DEVELOPMENT

The business environment continues to be challenging as the pandemic is expected to persist and creates uncertainty. With over 60 years' experience in pachinko industry, the Group is resilient to market change, and is confident in achieving moderate recovery of hall traffic through providing a variety of game machines, and ensuring a safe and comfortable playing environment. In August 2020, a new hall equipped with over 1,000 game machines was opened in the Koriyama city, the main market of the Group, allowing the Group to strengthen its market base and achieve competitive advantage.

Aligning with the Group's medium to long-term business strategies, 5 loss-making pachinko halls are scheduled to cease operation in the third quarter of this financial year. Resources from these halls will be allocated to other areas. Through resources re-allocation, the management believes this could create more value and deliver higher returns to shareholders.

Outlets expansion and allying with large Japanese shopping mall developer continue to be the main business strategies of the Group in its Southeast Asian investments. The management is planning to open 2 new game centres in Vietnam in the second half of this financial year. This not only will broaden the local market share, generating new revenue, but also will strengthen Dream Games's branch presence.

The concept of accommodating café inside the vicinity of pachinko hall has proven to be successful as the two KOMEDA cafés continue to generate profits.

For eSports business, since the outbreak of COVID-19 and social distancing measures imposed in Hong Kong, its operation was in a static position as majority of the offline game events were put off with no schedule of re-opening. The Group is convinced that e-sports' popularity would not ease, and the management is seeking every opportunity in launching e-sports business in the domestic market.

In spite of the unpredictable development of the pandemic causing global economic uncertainty, the Group is ready to confront every challenge and endeavor to promote the Group's motto — "Happy, Time, Creation"; bring joy to customers and establish a rapport, long-term relationship with customers and business partners; and strive for higher returns to shareholders.

FINANCIAL REVIEW

Revenue from Pachinko and Pachislot Business

Revenue from pachinko and pachislot business is derived from gross pay-ins netted with gross pay-outs.

Revenue from pachinko and pachislot business recorded a drastic decrease of ¥5,293 million, or 41.4%, from ¥12,777 million for the six months ended 30 September 2019 to ¥7,484 million for the same period in 2020. The plunge is due to the declaration of the state of emergency by the government of Japan restricting social activities and people-to-people contact to curb the spread of COVID-19. Following the state of emergency declaration, all pachinko and pachislot halls of the Group were temporarily closed between mid-April 2020 and late May 2020. Though the restriction was lifted subsequently, customers had low intention to visit the pachinko halls during the pandemic. These factors had drastically dampened the revenue for the six months ended 30 September 2020.

Gross pay-ins

Gross pay-ins recorded a significant drop of ¥28,688 million, or 40.5%, from ¥70,770 million for the six months ended 30 September 2019 to ¥42,082 million for the same period in current year.

Gross pay-outs

Gross pay-outs, being the aggregate cost of G-prizes and general prizes exchanged by customers, dropped by ¥23,395 million, or 40.3%, from ¥57,993 million for the six months ended 30 September 2019 to ¥34,598 million for the same period in 2020 which corresponded to the decrease in gross pay-ins.

Revenue margin

The revenue margin declined by 0.3% from 18.1% for the six months ended 30 September 2019 to 17.8% for the same period in current year. The decline in revenue margin was due to slight adjustment of pay-out ratio to stimulate customers' visit.

Revenue from amusement arcade business

Revenue from amusement arcade business dropped from ¥901 million for the six months ended 30 September 2019 to ¥526 million for the same period in 2020. The amount comprised revenue derived from Vietnam and Cambodia amounting to ¥459 million and ¥67 million, respectively (30 September 2019: ¥707 million and ¥194 million, respectively). The decrease in revenue is due to the lockdown and social distancing measures imposed by local governments, causing temporary closure of game centres in Vietnam and Cambodia for a month.

Other revenue

Other revenue represents incomes from vending machines, hotel and restaurant operations.

Vending machine income amounted to ¥150 million for the six months ended 30 September 2020. The decrease of ¥95 million, or 38.8%, as compared to ¥245 million for the six months ended 30 September 2019 was resulted from the negative impact of COVID-19 as mentioned above.

Income from hotel operation amounted to ¥20 million for the six months ended 30 September 2020, recording a significant drop of ¥62 million, or 75.6%, as compared to the six months ended 30 September 2019 of ¥82 million. The hit on hotel income is caused by extremely low occupancy rate of 11% for the six months ended 30 September 2020 as compared to 75% in the same period in 2019, as hotel was closed for two months during the early outbreak of COVID-19.

Revenue from restaurant operations amounted to ¥122 million for the six months ended 30 September 2020. The decline of ¥264 million as compared to the same period in 2019 was resulted from the temporary suspension of business during the outbreak of COVID-19.

Hall operating expenses

Hall operating expenses decreased by ¥2,900 million, or 26.7%, from ¥10,850 million for the six months ended 30 September 2019 to ¥7,950 million for the same period in current year. Major components of hall operating expenses are pachinko and pachislot machine expenses, staff cost for hall staff and depreciation expenses, amounting to ¥1,533 million, ¥2,456 million and ¥2,220 million, respectively, for the six months ended 30 September 2020 (30 September 2019: ¥3,222 million, ¥2,785 million and ¥2,265 million, respectively).

The decline in hall operating expenses was resulted from (i) less pachinko and pachislot machines were purchased during the current period; (ii) cancellation of interim bonus for staff; and (iii) decrease in variable costs such as repair and maintenance and travelling expenses, as no business activity was carried out during the business suspension.

Administrative and other operating expenses

Administrative and other operating expenses decreased by ¥669 million, or 28.5% from ¥2,348 million for the six months ended 30 September 2019 to ¥1,679 million for the same period in 2020. The decrease in expenses was attributable to the decrease in staff and recruitment expenses and advertising expenses under the cost control measures.

Finance costs

Finance costs, net amounted to ¥669 million for the six months ended 30 September 2020 which was maintained at the similar level of ¥689 million for the same period in 2019.

(Loss)/profit attributable to shareholders of the Company, basic (loss)/earnings per share and dividend

Loss attributable to shareholders of the Company of ¥1,648 million was recorded for the six months ended 30 September 2020, as compared to profit attributable to shareholders of the Company of ¥496 million for the six months ended 30 September 2019. The turnaround from profit for the six months ended 30 September 2019 to loss in the same period in 2020 was due to the significant drop in revenue caused by the negative impact of COVID-19 pandemic.

Basic loss per share for the six months ended 30 September 2020 was ¥1.38 (basic earnings per share for the six months ended 30 September 2019: ¥0.41). The Board has resolved not to declare an interim dividend for the six months ended 30 September 2020 (30 September 2019: ¥0.10 per share).

CAPITAL STRUCTURE

The Group principally meets its working capital and other liquidity requirements through a combination of capital contributions, including cash flow from operations and bank borrowings. The Group's daily operation is mainly financed by operating cash flows, and relied on short- and long-term borrowings for financing working capital, future expansion plans and unexpected needs. The Group's treasury objective is mainly to ensure there is sufficient cash flow to meet the payment of expenses, loans and to fund any capital expenditure and commitment that the Group may have from time to time. The Group's cash surpluses are placed in short-term and long-term fixed deposits to maintain liquidity. The Group has not experienced any difficulty in repaying its borrowings.

The Group's principal business activities are carried out in Japan, with income, expenditure, assets and liabilities mainly denominated in Japanese Yen, as such, the Group does not have any material foreign exchange exposure.

The table below sets forth the information regarding the cash and bank balances, borrowings, lease liabilities, working capital, total equity and gearing ratio of the Group as at 30 September 2020 and 31 March 2020, and operating cash flows before movements in working capital of the Group for the six months ended 30 September 2020 and 2019, respectively:

	As at 30 September 2020	As at 31 March 2020
	¥ million	*¥ million*
Cash and cash equivalents	**15,865**	14,128
Bank deposits with maturity over 3 months	**75**	750
	15,940	14,878
Bank loans	**4,044**	4,792
Syndicated loans	**12,617**	8,294
Lease liabilities	**34,636**	34,577
	51,297	47,663
Working capital *(Note 1)*	**2,543**	4,913
Total equity	**24,045**	25,799
Gearing ratio *(Note 2)*	**1.5**	1.3

	For the six months ended 30 September	
	2020	2019
	¥ million	*¥ million*
Operating cash flows before movements in working capital	**1,282**	4,345

Note 1: Working capital being current assets less current liabilities.

Note 2: Gearing ratio is calculated as total borrowings less cash and cash equivalents divided by equity.

Net current assets of the Group totalled ¥2,543 million as at 30 September 2020 (31 March 2020: ¥4,913 million), and current ratio was 1.17 as at 30 September 2020 (31 March 2020: 1.44). As at 30 September 2020, there were cash and cash equivalents of ¥15,865 million (31 March 2020: ¥14,128 million), in which ¥14,530 million was denominated in Japanese Yen, ¥1,007 million was denominated in United States dollar, ¥255 million was denominated in Hong Kong dollar and ¥73 million was denominated in other currencies. As at 30 September 2020, the Group had total borrowings of ¥51,297 million (31 March 2020: ¥47,663 million). Current portion of bank borrowings and current portion of lease liabilities amounted to ¥10,911 million as at 30 September 2020 (31 March 2020: ¥5,775 million).

The Group's bank borrowings during the current period comprised bank loans and syndicated loans. As at 30 September 2020, the total bank borrowings amounted to ¥16,661 million (31 March 2020: ¥13,086 million), with average effective interest rates on bank borrowings ranged from 0.90% to 1.74% (31 March 2020: 1.08% to 1.80%) per annum. Approximately 7.2% of bank borrowings as at 30 September 2020 were fixed rate borrowings.

HEDGING OF FLOATING RATE BORROWINGS AND FOREIGN EXCHANGE

As at 30 September 2020, the Group had three floating to fixed interest rate swap contracts with banks in Japan (i.e. the Group pays fixed interest rates and receives interests at floating rate). These interest rate swap contracts were entered into as a measure to manage interest rate risk in relation to loans of the Group. As interest rates of some of the Group's loans are on a floating rate basis, the floating to fixed interest rate swap contracts enabled the Group to reduce the volatility in the amount of interest being paid. For the six months ended 30 September 2020, no gain or loss on fair value for interest rate swap contracts was incurred.

The Group did not carry out significant foreign currency investment and its debts were all denominated in Japanese Yen as at 30 September 2020. As the functional currency of certain subsidiaries are different from the Company, the Group will be exposed to foreign exchange risk arising from such exposure, namely in Singapore Dollar, Vietnamese Dong, Cambodian Riel and Renminbi against Japanese Yen. The management is assessing the significance of the foreign currency exposures faced by the Group and will consider adopting appropriate measures to mitigate the risk, including but not limited to entering into currency hedges.

GEARING RATIO

The gearing ratio, defined as the aggregate of interest-bearing loans and lease liabilities less cash and cash equivalents, divided by total equity, was 1.5 as at 30 September 2020 (31 March 2020: 1.3).

CAPITAL EXPENDITURE

Capital expenditure mainly comprised of expenditure for (i) the purchase of property, plant and equipment mainly used for construction of buildings, and (ii) the purchase of equipment and tools for the maintenance of our pachinko and pachislot hall and amusement arcade operations. The table below shows a breakdown of the capital expenditure for the indicated periods:

	As at 30 September 2020	As at 31 March 2020
	¥ million	*¥ million*
Property, plant and equipment	**812**	1,473
Right-of-use assets	**1,013**	963
Intangible assets	**–**	63
	1,825	2,499

CHARGES ON ASSETS

As at 30 September 2020 and 31 March 2020, the carrying values of charged assets were as below:

	As at 30 September 2020	As at 31 March 2020
	¥ million	*¥ million*
Property, plant and equipment	**11,168**	10,475
Investment properties	**620**	630
Deposits and other receivables	**145**	178
	11,933	11,283

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 30 September 2020 and 31 March 2020.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

During the six months ended 30 September 2020, the Group did not conduct any significant investments, material acquisitions or disposals. Save for those disclosed in this interim results announcement, the Group had no plan authorised by the Board for other material investments or additions of capital assets as at the date of this interim results announcement.

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2020, the Group had 1,870 employees. The remuneration policy of the Group (including those for directors and employees) is determined by the Remuneration Committee under the Board as per the performance, qualifications and competence of the employees.

CORPORATE GOVERNANCE

During the six months ended 30 September 2020, the Company has adopted and complied with all the applicable principles and code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), with the exception for code provision A.2.1, which requires the roles of chairman and chief executive to be separated and should be performed by different individuals, and code provision E.1.3, which requires that notice for an annual general meeting should be sent to the shareholders at least 20 clear business days before the meeting.

Code Provision A.2.1

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Our Chairman currently holds both positions. Since April 2010, our Chairman has been the key leadership figure of our Group who has been primarily involved in the formulation of business strategies and determination of the overall direction of our Group. He has also been chiefly responsible for our Group's operations as he directly supervises our Executive Officers (other than himself) and members of our senior management. Taking into account the continuation of the implementation of our business plans, the directors of the Company (including our Independent Non-executive Directors) consider our Chairman is the best candidate for both positions and the present arrangements are beneficial to and in the interests of our Company and our shareholders as a whole.

Code Provision E.1.3

Code provision E.1.3 stipulates that notice for an annual general meeting (the "AGM") should be sent to its shareholders by the issuer at least 20 clear business days before the meeting. The AGM of the Company for the year ended 31 March 2020 was held on 29 July 2020 (the "2020 AGM"), while the notice for the 2020 AGM was despatched on 3 July 2020. The above arrangement complied with the articles of incorporation of the Company (the "Articles of Incorporation") prepared pursuant to the Companies Act in respect of the minimum notice period of 21 calendar days (the date of sending and the date of the meeting shall not be included within this period) for AGM but the notice period for the 2020 AGM was less than 20 clear business days before the 2020 AGM.

Under the Companies Act and the Articles of Incorporation, the Company is required to hold an AGM within three months after the expiration of each financial year (i.e. on or before 30 June 2020 for the financial year ended 31 March 2020). Due to COVID-19, it is permitted by the Ministry of Justice of Japan to hold the 2020 AGM on a day after the date specified in the Articles of Incorporation.

The Companies Act also requires the notice for the AGM to be despatched together with the audited financial statements under the Japanese Generally Accepted Accounting Principles, which must be approved by the Board. On the other hand, the annual report must contain audited financial statements prepared under the IFRS as required under the Listing Rules. As a result, more time was required to finalise the annual report which accompanied the AGM notice despatched to the Shareholders.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry with all Directors, the Directors confirmed that they had complied with the required standard set out in the Model Code and the Company's code of conduct during the six months ended 30 September 2020.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company did not redeem any of its listed securities during the six months ended 30 September 2020. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the six months ended 30 September 2020.

CHANGE TO INFORMATION IN RESPECT OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the change in information of the Directors since the date of the Company's Annual Report 2020 is set out below:

- Mr. Akihito TANAKA has been appointed as an Independent Non-executive Director with effect from 29 July 2020.

Save as disclosed above, there is no change in information of the Directors since the date of the Company's Annual Report 2020 which required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2020 (30 September 2019: ¥0.10 per share).

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the unaudited condensed consolidated interim financial information and the Interim Report for the six months ended 30 September 2020 and discussed the financial related matters with the management. The unaudited condensed consolidated interim financial information of the Group for the six months ended 30 September 2020 has been reviewed by the Company's auditor, PricewaterhouseCoopers, in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.ngch.co.jp), and the interim report of the Company for the six months ended 30 September 2020 will be dispatched to the shareholders of the Company and will be published on the respective websites of the Stock Exchange and the Company in due course.

On behalf of the Board
NIRAKU GC HOLDINGS, INC.*
株式会社ニラク▪ジー▪シー▪ホールディングス
Hisanori TANIGUCHI
Chairman, Executive Director and Chief Executive Officer

Fukushima, Japan, 20 November 2020

As at the date of this announcement, the executive Directors are Hisanori TANIGUCHI, Akinori OHISHI and Masataka WATANABE; the non-executive Director is Hiroshi BANNAI; and the independent non-executive Directors are Michio MINAKATA, Yoshihiro KOIZUMI, Kuraji KUTSUWATA and Akihito TANAKA.

* *for identification purpose only*